

Order 2002-6-14
Served: June 26, 2002



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 26th day of June, 2002

In the Matter of the

**SMALL COMMUNITY AIR SERVICE
DEVELOPMENT PILOT PROGRAM**

DOCKET OST-2002-11590

under 49 U.S.C. 41743 *et seq.*

ORDER AWARDING GRANTS

Summary

By this order, the Department awards financial grants to the communities listed in the attached Appendix to implement the air service initiatives proposed in their respective grant applications. Each grant is subject to the signing by each community of a grant agreement with the Department.

Background

On April 5, 2000, the President signed the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), P.L. 106-181. Among other things, the statute established a new pilot program, to be administered by the Department of Transportation, designed to help smaller communities enhance their air service. To fund the program, the statute authorized a funding level of \$20.0 million for fiscal year 2001 and \$27.5 million for each of fiscal years 2002 and 2003. No funds were appropriated for the first year, but in the Department's FY 2002 appropriation bill, P.L. 107-42, Congress appropriated \$20 million for the program, to remain available until expended. The statute directs the Secretary to assist communities in developing projects that will enhance their access to the national air transportation system and to help communities overcome impediments to their current air service.

Specifically, the law authorizes the Secretary to provide financial assistance to as many as 40 communities nationwide at any given time, though no more than four may be from the same

state.¹ While no community is required to contribute to the projects proposed under this program, the law directs the Secretary to give priority to those communities or consortia of communities where: a) air fares are higher than the average air fares for all communities; b) a portion of the cost of the activity contemplated by the community is provided from local, non-airport revenue sources; c) a public-private partnership has been or will be established to facilitate air carrier service to the public; and d) improved service will bring the material benefits of scheduled air transportation to a broad section of the traveling public, including businesses, educational institutions, and other enterprises whose access to the national air transportation system is limited.

On February 13, 2002, the Department issued Order 2002-2-11 inviting communities interested in receiving a grant under this program to file grant proposals by April 22, 2002, in Docket OST-2002-11590. While we indicated that we would accept proposals after that date, we made clear that proposals received by April 22 would be given priority consideration and those received after that date would be considered on an *ad hoc* basis. We did not require any particular format for the applications. We did, however, identify information that we wanted communities to include in their applications to help us in our consideration of their grant requests, including information about their existing air services, historical services, current service needs and deficiencies, a full description of the community's proposal, plans for implementation, funding requirements, and plans for monitoring the success of the project, including modifying or discontinuing funding if the project is not meeting expectations. To the extent that they considered it necessary for commercial purposes, we permitted communities to seek confidential treatment of certain portions of their applications, consistent with the Department's procedural regulations.

In addition to publishing the order in the Federal Register, we also provided copies of the request for proposals to the American Association of Airport Executives (AAAE), the Airports Council International--North America (ACI-NA), the National Association of State Aviation Officials (NASAO), and to the National Governors Association (NGA) to facilitate awareness of the program at as many communities as possible. In addition, in response to the many questions that the Department received concerning this new program, we compiled answers to the most frequently asked questions about the program and placed a copy of those questions and answers in the application docket. AAAE provided further access to this additional information by distributing copies to its member airports.

Grant Applications

The Department received 179 grant proposals, involving communities in 47 states, by April 22.² Collectively these communities seek over \$142.5 million in Federal assistance to support their grant proposals. With few exceptions, the communities have also proposed to contribute

¹ The statute specifies that a consortium of communities should be considered as a single entity. In addition, use of the funds to provide direct subsidy to an air carrier is limited to a period of no more than three years.

² The City of Macon, Georgia also submitted an application dated May 14, 2002. On May 13, 2002, Jackson, Mississippi, withdrew its proposal.

substantial local and state resources (money and in-kind contributions) to assist in implementing their proposed projects. The majority of communities filed individual applications. However, in some states, several communities filed proposals as members of a consortium, including communities in Alaska (the Aleutians), Arkansas, Arizona, Indiana, Maryland, Michigan, Nebraska, New Mexico, North Carolina, North Dakota, Pennsylvania, Tennessee, Texas, Virginia, West Virginia, and Wyoming. In addition, communities in neighboring states--Athens, Ohio, and Morgantown, West Virginia; and Pendleton, Oregon, and Walla Walla, Washington--filed joint applications proposing projects involving service to both communities in each consortium.³ Although under the statute we can award grants to no more than four communities in any one state, we received more than four proposals from communities in 15 states--Arkansas, California, Colorado, Florida, Georgia, Iowa, Illinois, Michigan, North Carolina, New York, Ohio, Oregon, Texas, Virginia, and West Virginia. We also received a number of applications from communities now receiving subsidized air service under the Department's Essential Air Service program seeking funds to promote those services or to expand their current air services by increasing frequencies, adding new routes, or upgrading equipment to increase capacity. All of these proposals are publicly available in the docket.⁴

It is evident from the proposals submitted that communities have given great thought to their air service issues. The communities' applications provided substantial information on historical and current air service issues facing them, the benefits of air service locally, their proposed initiatives to remedy their current air service problems, and the factors they believe support a grant award for their proposal. Nearly all of the communities seeking grant funds cited both service deficiencies and high airfares as problems affecting patronage of their air services, if service is available. Many applicants noted that passengers often drive to other, frequently distant, airports where a wider range of services is offered to more destinations and/or lower airfares are available, but contend that there is sufficient demand for service at the community and that service at the local airport would be more convenient. Many other applicants cited the reduction of air service since September 11, and the need and desire for larger, regional jet equipment to stimulate demand and increase use of local services, particularly by the business community. Some more isolated communities stressed the need for connectivity not only to the national air transportation system, but also within their states and on a regional level where the communities share common commercial, governmental, and economic interests.

Because the size and needs of each community differ widely, we received a range of proposals to address both service and fare issues. Some communities that currently do not have air service seek funds for air service feasibility studies; others seek funds to secure air service and access to the national air transportation system. Communities that now have some air service seek funds to expand those services by securing services by other air carriers, service on new routes by either

³ In addition, the Potomac Highlands Airport Authority in Wiley Ford, West Virginia, filed an application on behalf of the Greater Cumberland Regional Airport to benefit Cumberland, Maryland, the surrounding area in West Virginia and Maryland, and Hagerstown, Maryland.

⁴ In certain instances, communities have sought confidential treatment of certain portions of their applications. That material is not included in the public docket. Under our rules (14 CFR 302.12), all of these confidentiality requests are deemed granted unless and until we decide otherwise.

incumbent carriers or new airlines, more frequent service in existing markets, and increased capacity by upgrading the aircraft used in the service from turboprop to regional jets. Communities seeking competitive services not only stress the local market benefits to travelers from the increased service, but also the expanded service opportunities for travelers from access to the systems of the competing carriers for direct services that often reduce circuitry and air travel time.

Many communities seeking grants also seek lower airfares than now available from their airports in order to recapture passengers that are now driving to better-served, but less convenient airports and/or airports that offer lower fares. Several communities are seeking funds to attract low-fare carriers, such as AirTran, Southwest, Jet Blue, American Trans Air, and Frontier, to provide a low-fare option to travelers and also to put competitive pressure on the other airlines serving the community to reduce their airfares. Others seek to attract new competitors to their communities, whether or not they are classified as “low-fare” carriers, to put pressure on incumbent carriers to lower airfares for local and connecting services. Some communities have also proposed to subsidize airfares temporarily to stimulate demand and, potentially, reduce fare levels at the community on a longer-term basis without the need for subsidy support.

Communities have proposed a variety of projects to achieve their air service objectives. A critical component to most proposals is a provision for funds (Federal, State, and local) to support aggressive, community-based marketing and promotional initiatives to stimulate demand and community awareness of services at the local airport. These efforts are directed not only at the availability of the services, but also the convenience of using the local airport compared to more congested air service hubs or other nearby airports. Many have also included incentive plans for business travelers and for travel agents to promote increased use of the local airport’s services.

The overwhelming majority of applicants seek to attract new and/or additional air services to their communities. Communities have proposed a variety of means to achieve this goal, including revenue guarantees, travel banks, subsidy, assumption of all station and ground handling functions, purchasing of aircraft for an airline, waiver of airport rental and landing fees, or a combination of these different components. All are intended to reduce the risk to the carrier during the initial stages of its services, generally from one to three years, with the need for support declining over time as the service becomes self-sustaining.

Grant Awards

We have decided to make grant awards to the 40 communities identified in the attached Appendix, subject to the signing of a grant agreement between each of these communities and the Department.⁵

⁵ The applications of Houghton and Pellston, Michigan, were filed by the Michigan Department of Transportation, propose similar service related solutions to their air service problems, and seek the same level of grant funds. In these circumstances, we have decided to consider the proposals of these communities as a consortium and will make a single grant award to the communities.

The Small Community Air Service Development Pilot Program was established under the AIR-21 legislation to provide small communities with financial and other types of assistance to address air service issues, particularly those relating to insufficient air service or high airfares. The Pilot Program is unique in that it affords communities the opportunity to develop their own solutions to their air service problems based on their particular needs and circumstances. By providing communities substantial input and participation in the development and implementation of the air service projects, the Pilot Program aims to maximize the potential for success in the communities' endeavors.

This is the first year that funds have been appropriated for the Pilot Program, and thus, our first opportunity to make this program available to the many small communities that want to improve their air service. We received applications from over 175 small communities from states in every region of the country, demonstrating the significant interest of communities in this program. These communities not only have identified a variety of service and fare issues, they have also offered a number of different projects to address those issues. The intent of Congress as expressed in the legislation, the large number of applications, the broad geographic reach of the communities involved, together with the diversity in the service and fare issues and solutions presented persuade us that our awards should focus on three major objectives.

First, as this is a new program with a new approach to small community air service development, we want to provide as many communities as possible with the opportunity to address their air service issues. In addition, this program encompasses very small, isolated communities with little or no air service as well as communities that have higher population bases and may already have some air service. The underlying premise of this program is to provide all types of small communities an opportunity to address their air service needs and fare issues and to facilitate development of air service at the communities. (Only large and medium hubs are categorically excluded from participating.) Therefore, our grant awards include communities of varying sizes, service levels, and service and fare requirements.

Second, we want to make this program available to communities in all regions of the United States. We have received applications from communities in nearly every state. In addition to the individual differences in communities, air service needs and requirements can differ by region of the country as well. For example, because of the vast distances in the West, communities there experience air service issues that differ from those experienced by communities in the more densely populated East. Similarly, in some states, such as Alaska, geographic and weather considerations play an important role in the communities' air service needs and limitations. By awarding grants to communities throughout the country, we can ensure that all regions have the opportunity to address their unique air service needs.

Third, we want to facilitate solutions to as many of the service/fare issues raised by the communities as possible using a wide range of methods proposed by the applicant communities for achieving their air service objectives. This is an experimental program aimed not only at providing communities the flexibility to develop their own air service solutions, but also at testing different approaches to air service issues that may serve as models for other similarly situated small communities. By authorizing funds for a variety of projects designed to address

different air service and fare issues, we hope to develop important information relevant to the development of small community air services throughout the nation.

Finally, Congress appropriated \$20 million for the Pilot Program for fiscal year 2002. We have also sought to use the total funds available under our grant awards to ensure that the full benefits of this program are available to the participating communities.

With these objectives in mind, we carefully considered the many proposals that were submitted in response to our solicitation order. The awards that we are making here will provide financial assistance to 40 communities in 38 states. These awards address the majority of the air service and fare issues raised in this grant process fully using the \$20 million available under the statute, and thereby achieving our goals to maximize the opportunities available to communities in this process and to make those opportunities available to communities in all regions of the country. In nearly all cases the communities will contribute financially to their proposed projects and the majority either have or will establish public/private partnerships to increase community participation and to facilitate access to air service for the community.

While many of the applications that we received were meritorious, we believe that the 40 proposals that we have selected best satisfy the intent of Congress, as well as provide us with the opportunity to test the widest range of approaches to improving small community air service in all regions of the country.

Our awards to Baker, Oregon, and Lamar, Colorado, will support the efforts of these communities to obtain air service. Both are isolated and seek to provide their communities and surrounding environs with access to the national air transportation system. Lamar wants service with an eight-seat Cessna Caravan aircraft and seeks funds to subsidize a carrier to provide that service. Baker seeks funds to facilitate its participation in a "Sky Taxi" franchise that will provide the region with on-demand service throughout the region and to key air service hubs.

Our grants to Santa Maria, California; Lake Charles, Louisiana; and Casper/Gillette, Wyoming, will support the efforts of these communities to secure air service from a second carrier, enhancing competition, providing local access to the systems of other airlines and their partners, and potentially placing downward pressure on existing airfares at the communities. Each community seeks to accomplish its objective in a different way. Santa Maria seeks the funds to contribute to a travel bank to support the new service. Lake Charles will use the funds to provide subsidy to the new airline during the initial stages of its service. Casper/Gillette will use the funds to purchase an aircraft that would be leased back to Big Sky Airlines for service to Billings, Montana. All will also use a portion of the Federal funds requested together with their own funds to provide greater promotion and marketing of the new services.

Awards to the Tennessee consortium (Bristol, Kingsport, and Johnson City); Rhinelander, Wisconsin; Charleston, West Virginia; Hailey, Idaho; Augusta, Georgia/Aiken, South Carolina; Fort Smith, Arkansas; and Beaumont/Port Arthur, Texas, will support the efforts of these communities to expand their services to new routes. The Tennessee communities, Charleston, and Rhinelander, will use the grant funds in conjunction with their own for revenue guarantees to

support new services. Hailey will use the grant funds to subsidize an incumbent airline for its expanded service. Augusta/Aiken, Fort Smith, and Beaumont/Port Arthur will support the new routes at their communities with aggressive marketing and promotion programs to generate traffic for the services.

Similarly, Mobile, Alabama; Daytona Beach, Florida; Houghton, Michigan; and Rapid City, South Dakota, seek to expand the range of services and carriers at their airports or to restore services that were discontinued after September 11. Mobile will encourage new services by assuming the station costs and providing all ground handling for airlines that would serve the community. Daytona Beach will offer a revenue guarantee to support the resumption of New York service. Houghton will use the grant funds to subsidize the resumption of service at its community. Rapid City will initiate a large-scale advertising and promotional campaign of the region and the airport's services as well as offer revenue guarantees to attract additional services at its airport.

Meridian, Mississippi, and Lake Havasu, Arizona, will use their grant awards to increase the frequency of their existing services to Atlanta and Phoenix, respectively, in order to improve connections at the hubs and to provide greater access to these points for local traffic. Both would also use some of the Federal funds as well as local funds to market the increased services.

Four communities--Paducah, Kentucky; Pellston, Michigan; Binghamton, New York; and Lynchburg, Virginia--want to increase the capacity and size of aircraft serving their communities and will use the grant funds to support equipment upgrades from turboprop aircraft to regional jet aircraft. Paducah will defray startup costs and market the upgraded services. Pellston will provide subsidy for the increased regional jet service. Binghamton and Lynchburg will support their proposed upgrades with revenue guarantees.

Two communities--Bismarck, North Dakota, and Scottsbluff, Nebraska--have raised the need for improved regional services as well as access to hubs for connecting services, given the great distances in these states and the region generally. Bismarck will establish a travel bank and defray startup costs to support its regional proposal. Scottsbluff will subsidize a new startup commuter carrier for its proposed regional service.

Five communities--Asheville, North Carolina; Taos/Ruidoso, New Mexico (a consortium); Abilene, Texas; and Pasco and Bellingham, Washington--propose targeted marketing and promotional campaigns to support the services at their communities to increase ridership and, ultimately, to attract additional services. In this regard, Abilene will hire a full-time business development director to promote airport services and to recruit additional carriers.

Awards to the Aleutians and Somerset, Kentucky, will support the proposals of those communities to conduct air service studies. The Aleutians will use the funds to help determine the type of aircraft, frequency levels, hubs and carriers that would best serve their special air transportation needs given their geographic location and weather conditions. Somerset does not now have air service and will use the funds for an air service feasibility study, with the ultimate goal of attracting local airline service.

Reading, Pennsylvania, will use the grant funds to subsidize a multi-frequency bus service between Reading and Philadelphia to improve the connectivity of and convenience for Reading passengers, and to demonstrate the high level of demand at Reading to support additional air services.

Our awards to Fort Wayne, Indiana; Manhattan, Kansas; Brainerd/St. Cloud, Minnesota (a consortium), and Akron/Canton, Ohio, will support these communities' proposals to reduce airfares for travelers using their airports. Fort Wayne will use the funds to provide subsidy support for low-fare air service to Chicago. Manhattan and Brainerd/St. Cloud will use the funds for revenue guarantees to support competitive services at their communities. Akron/Canton will also use the funds for a revenue guarantee to expand low-fare service to additional markets.

Finally, we have made grant awards to five communities now receiving subsidized air service under the Essential Air Service (EAS) program--Mason City, Iowa; Marion, Illinois; Presque Isle, Maine; Cape Girardeau, Missouri; and Moab, Utah. Communities in the EAS program have often suggested that additional frequencies, increased capacity, and/or greater funds for marketing could make the difference in whether their air service would continue to require subsidy. The funding limitations of the EAS program do not make it possible to test these initiatives and many of the communities do not have the ability financially to explore these options without some additional support. The Small Community Air Service Development Pilot Program provides an opportunity to facilitate these initiatives and assess their impact on the currently subsidized services. Our awards to Marion and Moab will enable these communities to do extensive community-based marketing of the available air services and may provide important information on the effect of such efforts on ridership. Similarly, our award to Cape Girardeau will support that community's efforts to test the benefits of increased frequencies. Service at Mason City recently became subsidized after September 11. The community is currently served on a linear routing with Ft. Dodge, Iowa. Mason City, however, proposes to obtain its air service apart from Ft. Dodge, using a revenue-guaranteed, market-based approach, rather than under the Department's EAS subsidy program. Our award to Presque Isle will be used to promote its efforts for greater connectivity within Maine. The community currently receives subsidized air service to Boston. However, Presque Isle is very isolated in northern Maine. Greater connectivity to Portland will benefit travelers in that region and may also promote additional ridership for the Boston services.

Grant Agreements

As we noted in our order inviting proposals, the grant awards here will become effective upon the execution of the grant agreements between each community and the Department and we will be contacting the communities receiving grants to complete the execution of those agreements. We also stated that we expected communities to establish milestones to monitor the progress of the proposed projects to determine whether modifications are necessary or whether funding should be suspended prior to the end of the funding period if the project is not attaining the desired results. We intend to include such milestones in the grant agreements. We remind communities that no award is final until a formal grant agreement with the Department is

executed and that all Federal funds will be disbursed on a reimbursable basis. Therefore, communities should not proceed with their plans until the grant agreements have been signed.

While we expect that the majority of the service and fare initiatives under this grant program will be successful, this is an experimental program that provides for interim measures of progress as requirements for continued funding. It is possible that one or more of the projects will not succeed and, therefore, not all of the funds will be expended for those projects. It is also possible that some communities will not accept the conditions in the grant agreements. Should this occur, it would then be possible for us to use the available funds to make grant offers to additional communities. It is also possible that some of the funds that are awarded for revenue guarantees will not be used fully if projected traffic levels exceed expectations. The law provides that we can continue to make awards, within the other overall community and statewide limitations set forth in the statute, until the funds are expended. If such additional funds and opportunities do become available, we will make awards to one or more communities, choosing from the other applications filed by April 22, as well as any subsequent applications filed in conjunction with this program. Before doing so, we would first contact the community to determine if it continues to be interested in an award and if there are any changes to its proposal. As communities may still receive a grant award under this program, we do not intend to entertain petitions for reconsideration of this order.

AIR SERVICE DEVELOPMENT ZONE

The statute directs the Department to designate an airport in one community awarded a grant under this program as an "air service development zone," and to provide assistance, in coordination with other government agencies, to the community to facilitate land use and economic development of the area surrounding the airport.

We have decided to designate the Augusta Regional Airport in Augusta, Georgia, as an air service development zone. The airport serves a two-state metropolitan market, encompassing 18 counties in Georgia and South Carolina in the Central Savannah River Area. The Augusta, Georgia/Aiken, South Carolina area has a growing medical sector. In addition, the Department of Energy's Savannah River Site, and the U.S. Army's Signal Center and School are also located there, and several major corporations have offices in the Central Savannah River Area. This designation will facilitate the stated efforts of the community, the airport, and the Augusta Aviation Commission to make the Augusta Regional Airport the central focus for economic development of the Central Savannah River Area. We will contact the community to discuss its plans and our joint partnership in this economic development effort.

ACCORDINGLY,

1. We issue grant awards to the communities listed in the attached Appendix, subject to the signing of a grant agreement between the community and the Department;
2. We designate Augusta Regional Airport in Augusta, Georgia, as an Air Service Development Zone under 49 U.S.C. 41743, section 203(h);

3. We will serve a copy of this order on the legal sponsor for each of the communities that submitted applications in this docket; and
4. We will not entertain petitions for reconsideration of this order.

By:

READ C. VAN de WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available
on the World Wide Web at <http://dms.dot.gov>*

SMALL COMMUNITY AIR SERVICE DEVELOPMENT PILOT PROGRAM GRANT AWARDS

Count	City	State	Federal Grant Award
1	King Cove, Sand Point, Akutan, Cold Bay, False Pass, Nelson Lagoon	AK	\$240,000
2	Mobile	AL	\$456,137
3	Fort Smith	AR	\$108,520
4	Lake Havasu City	AZ	\$403,478
5	Santa Maria	CA	\$217,530
6	Lamar	CO	\$250,000
7	Daytona Beach	FL	\$743,333
8	Augusta/Aiken	GA/SC	\$759,004
9	Mason City	IA	\$600,000
10	Hailey	ID	\$600,000
11	Marion	IL	\$212,694
12	Fort Wayne	IN	\$398,000*
13	Manhattan	KS	\$388,350*
14	Paducah	KY	\$304,000*
15	Somerset	KY	\$95,000
16	Lake Charles	LA	\$500,000
17	Presque Isle	ME	\$500,000
18	Houghton & Pellston	MI	\$120,000
19	Brainerd, St Cloud	MN	\$1,000,000
20	Cape Girardeau	MO	\$500,000
21	Meridian	MS	\$500,000
22	Asheville	NC	\$500,000
23	Bismarck	ND	\$1,557,500
24	Scottsbluff	NE	\$950,000
25	Taos/Ruidoso	NM	\$500,000
26	Binghamton	NY	\$500,000
27	Akron/Canton	OH	\$950,000
28	Baker City	OR	\$300,000
29	Reading	PA	\$470,000
30	Rapid City	SD	\$1,400,000*
31	Bristol/Kingsport/Johnson City	TN	\$615,000
32	Abilene	TX	\$85,010
33	Beaumont/Port Arthur	TX	\$510,000
34	Moab	UT	\$250,000*
35	Lynchburg	VA	\$500,000
36	Bellingham	WA	\$301,500
37	Pasco	WA	\$200,000
38	Rhineland	WI	\$500,000
39	Charleston	WV	\$500,000
40	Casper, Gillette	WY	\$500,000
	Total		\$19,985,056

* Grant award is less than what the community requested.